INCOMING TELEGRAM *Department of State* ACTION COPY

CONFIDENTIAL

Control: 1113
Rec'd: September 3, 1954
2:24 a.m.

FROM: Guatemala City

TO: Secretary of State

NO: 241, September 2, 4 p.m.

PRIORITY

First night, following assumption of presidency by Colonel Castillo Armas, passed without incident. While government officials expressed confidence there would be no trouble they said suitable precautions against possible military uprising had been taken and press this morning reports Castillo together with former Junta members Monzon and Oliva visited principal military centers yesterday where Castillo received assurances support and Monzon and Oliva emphasized their resignations had been voluntary and not as result of pressure. However, some army officers are known to feel that Monzon's resignation violated pact of San Salvador and that they are under no obligation whatever to Castillo. Hence while Castillo has survived first critical moments possibility of disturbances later cannot be entirely discounted.

I talked with President Castillo for an hour last night at home of Minister of Communications Prado Velez and endeavored to impress on him need for decisive action if he was to hold confidence of country. I urged advantage be taken of resignation of Cabinet to replace incompetents with capable men. I then asked his views on proposal to hold Constituent Assembly, suggesting such action in near future desirable to enhance domestic and foreign prestige of his government and reassure Guatemalans who feared long period of dictatorship. Castillo said he planned to announce intention call Constituent Assembly in speech today but that he did not think it should be held until problem of unemployment had been substantially overcome since he feared jobless would be easy prey to Communist propaganda. I asked when he thought elections would be held and he said as soon as highway construction program could be gotten under way, especially construction of inter-American highway. I then told him all formalities had been complied with and that representative of BPR would arrive in Guatemala soon to assist in starting work. Castillo was pleased and said he would probably refer to this development in his address to nation.

President then

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-2- #41, September 8, 4 p.m. from Guatemala City

President then said he had two matters he wished discuss with me. Labor and relations with American companies. On labor he said he had had to take harsh measures to break Communist control of unions but that he wished to attract labor support for his government and avoid reputation abroad of being anti-labor. He thought time had come to reorganize unions and regretted that American companies were opposing his efforts. He hoped they could be induced to cooperate with government in eliminating Communists and setting up free unions, thus (#) labor clandestinely. I expressed full agreement with his views and said I knew Department also agreed.

It will be noted President's spontaneously expressed views on labor differ sharply from alleged government position as stated by IRCA Railway official who called on me yesterday (Embassy telegram 238).

Continuing this conversation Castillo said that relations with American companies were generally excellent. Both UFCO and IRCA had expressed willingness revise their contracts to give greater benefits to government and he hoped detailed negotiations might be undertaken soon. Only Electric Power Company had not made any offer. I replied I hoped mutually satisfactory arrangements would be worked out with all companies especially in view of government's urgent need for additional revenue.

In conclusion President said his advisers were working on provisional law to permit exploration for petroleum to get underway at once and that later complete new petroleum law would be drawn up possibly with aid of US expert not connected with oil companies. I encouraged him to proceed along this line and mentioned Max Ball as outstanding authority on petroleum legislation.

PEURIFOY

FGH:HLS

(#) Omission of approximately 86 characters garbled. Correction requested.

INCOMING TELEGRAM CONFIDENTIAL 9/6/54, 12:30 a.m.
CORRECTED PAGE 2.

-2- 241, September 2, 4 p.m. from Guatemala City CN 1113.

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